

GATEWAY AREA DEVELOPMENT DISTRICT
Morehead, Kentucky

FINANCIAL STATEMENTS
June 30, 2011

CONTENTS

Management's Discussion and Analysis	1-4
Independent Auditors' Report	5
Financial Statements	
Statement of Net Assets	6
Statement of Revenues, Expenses, and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9-16
Supplemental Information	
Cost Allocation Policy	17-18
Schedule of Shared Costs, Kentucky Joint Funding Administration Program	19
Statement of Completed Grant, Kentucky Joint Funding Administration Program	20
Statement of Completed Grant, Area Agency on Aging	21-22
Statement of Operations for Consumer Directed Option (CDO).....	23
Statement of Operations for Workforce Investment Act.....	24
Statement of Operations by Program and Supporting Services	25
Report in Accordance with Governmental Auditing Standards	26
Report in Accordance with OMB A-133	27-28
Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs	30

GATEWAY AREA DEVELOPMENT DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Gateway Area Development District (GADD) is a governmental non-profit corporation formed pursuant to KRS Chapter 147A. One of fifteen statewide Area Development Districts established in 1969, its mission is basic: to bring local civic and governmental leaders together to accomplish major objectives and take advantage of opportunities which cannot be achieved or realized by those governments acting alone. Also it serves as a focal point of a necessary federal-state-local partnership for improvement of the quality of life in the region and the Commonwealth. GADD serves the five-county area of Bath, Menifee, Montgomery, Morgan, and Rowan counties.

GADD is governed by a Board of Directors comprised of elected officials from the counties and communities within the District, as well as non-elected citizen members representing a cross-section of the region's social and economic institutions. The office is managed by an Executive Director who reports directly to the Board. Office staff reports to the Executive Director.

This discussion and analysis narrative provides an overview of GADD's financial performance during the 2011 fiscal year. Please read the following in conjunction with the audited financial statements and the accompanying notes.

OVERVIEW OF THE ANNUAL REPORT

This annual report includes the management's discussion and analysis, the independent auditors report, the GADD's audited financial statements, and notes to the financial statements. The notes to the financial statements explain in detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

GADD's financial statements utilize the full accrual basis accounting. Also, the financial statements conform to generally accepted accounting principles and guidelines set forth by the Governmental Accounting Standards Board. GADD is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county areas. As such, the entity-wide financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. These statements display information about the entity as a whole.

GADD does not utilize multiple funds in accounting for its financial activities; therefore fund type statements are not presented. The statement of net assets details GADD's investments (assets) and debt (liabilities). The statement of net assets is very similar to the balance sheet. The statement of revenues, expenses, and changes in net assets details revenue classified by source and expenditures by object for separate fiscal years and the statement of changes in net assets takes into account adjustments for prior year events.

GADD's FINANCIAL ANALYSIS

The enclosed financial statements indicate that the financial condition of GADD only declined very slightly for the fiscal year ended June 30, 2011, which is shown by the \$43,141 decrease in net assets (i.e. the difference between assets and liabilities) reflected in the following table.

Condensed Statement of Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>
Current & Other Assets	\$1,588,014	\$ 1,584,546
Capital Assets	1,074,210	1,120,457
Amortized Assets	<u>13,027</u>	<u>13,389</u>
Total Assets	<u>\$2,675,251</u>	<u>\$ 2,718,392</u>
Current Liabilities	\$345,070	\$ 500,517
Long Term Liabilities	1,275,367	1,299,239
Net assets		
Invested in capital assets	1,274	33,427
Restricted	597,961	584,326
Unrestricted	<u>455,579</u>	<u>300,883</u>
Total Liabilities & Net Assets	<u>\$2,675,251</u>	<u>\$2,718,392</u>

At the close of the fiscal year, assets exceeded liabilities by \$1,054,814. Total assets decreased from June 30, 2010 by less than 2%, primarily due recognition of depreciation within the capital assets group. Cash deposits as of June 30, 2011 were \$247,561 less than as of June 30, 2010, and outstanding receivables as of June 30, 2011 were \$251,029 more than as of June 30, 2010 – both of which is contributable to a change in the manner Kentucky's Department for Aging and Independent Living (DAIL) paid the final two Area Agency on Aging contract's invoices.

Total liabilities decreased by \$179,319 (approximately 2%) primarily related to a reduction in operational accounts payable, full payment on outstanding lines of credit, and the annual payment on the long-term loans from the USDA Rural Development.

Overall there was a 1.62% decrease in GADD's total liabilities and net assets from June 30, 2010 to June 30, 2011, whereas there was a 3.87% decrease in net assets from June 30, 2009 to June 30, 2010.

GADD's revenues earned and expenses incurred throughout fiscal year 2011 were in accordance with management's expectations. GADD closed the year with an overall gain in net assets of \$135,053, whereas fiscal year 2010 net assets reflected an overall loss of \$51,764. Only \$6 in local funds was needed to apply towards programs in fiscal year 2011 compared to \$9,195 in fiscal year 2010.

The following statement of revenues, expenses, and changes in net assets provides a more detailed look.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FY 2011</u>	<u>FY 2010</u>
Federal revenues	\$ 720,447	\$ 754,980
State revenues	1,516,174	1,643,873
Local and in-kind	335,799	351,196
Revolving loan interest	<u>19,301</u>	<u>20,989</u>
Total Revenues	<u>2,591,721</u>	<u>2,771,038</u>
Expenses		
Salaries	629,181	685,223
Fringe benefits	302,681	355,057
Travel	51,172	39,449
Sub Grantees	1,107,552	1,126,760
Other	<u>317,708</u>	<u>565,393</u>
Total Operating Expenses	<u>2,408,294</u>	<u>2,771,882</u>
Operating Income (Loss)	183,427	(844)
Non-operating Income (Expense)		
Bank interest	740	680
Interest expense	<u>(49,114)</u>	<u>(51,600)</u>
Increase (Decrease) in net assets	135,053	(51,764)
Net assets – beginning of year	918,636	1,087,639
Adjustments and changes	<u>1,125</u>	<u>(117,239)</u>
Net Assets – End of Year	<u>\$1,054,814</u>	<u>\$ 918,636</u>

From June 30, 2010 to June 30, 2011, total net assets increased by 14.82% or \$136,178. Current fiscal year revenues decreased \$179,317 from fiscal year 2009-10 while expenses decreased by \$363,588. Operations reflect a net gain of \$183,427, which is a significant improvement from fiscal year 2010 loss of \$844.

GADD's federal and state revenue attributable to externally-funded grants and contracts incurred a 6.76% decrease. GADD is bound by contract limitations, and in some cases, these funds were insufficient to fully cover the corresponding administration costs. Local revenue, which includes both cash and in-kind contributions, decreased slightly (4.38%).

There are two types of local revenue. The first type is any money received by GADD that is not related to a specific program, such as local county dues, donations, and performance contracts. The other type of local revenue is any monies contributed to the Aging programs by local governments or agencies, such as county funding used to support the area senior citizens center. Local in-kind is any volunteer time, such as senior center volunteers, for which a value can be calculated. Only local funding received directly by GADD can be used to subsidize day-to-day activities and makes up only a small portion (approx. 13.6%) of the total local funds shown above.

An analysis of expenditures shows that both salaries and fringe benefits decreased during the current fiscal year, which is reflective of management's decision to reduce the number of full-time employees because of budget constraints.

Agency-wide travel expenses increased by \$11,723 during fiscal year 2011, primarily due to an increase in the number of clients served by the Aging program's homecare aides and additional external conferences attended by GADD's Executive Director. Both of these were in accordance with management's expectations.

Sub-grantee expenses related to the Aging Program decreased very slightly, by approximately 1.7%.

Other operating expenses reflect a significant decrease, \$247,685, primarily related to the lack of Kentucky Housing Corporation's Gateway Home program that closed as of June 30, 2010.

Non-operating bank interest remained stable. GADD was able to decrease its non-operating interest expense primarily as a result of monitoring the cash flow closer whereby the established lines of credit were not used.

CAPITAL ASSETS

GADD continued to invest in capital assets for fiscal year 2011. The amount includes property, equipment, building, and land. Capital assets had a net balance of \$1,074,210 at June 30, 2011.

	06-30-10 Balance	FY 2011 Additions	06-30-11 Balance
Property and equipment	\$ 442,239	\$ 17,174	\$ 459,413
Building and land	<u>1,109,831</u>	<u>0</u>	<u>1,109,831</u>
Total fixed assets	1,552,070	17,174	1,569,244
Less: accumulated depreciation	<u>431,613</u>	<u>63,421</u>	<u>495,034</u>
Net	<u>\$ 1,120,457</u>	<u>\$ (46,247)</u>	<u>\$ 1,074,210</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

GADD considered many factors when setting and monitoring the fiscal year 2011 budget. Our Area Development District receives most of its funding from federal, state, and special contracts. Because of this, a portion of the source of income is fairly steady except for state-imposed budget reductions. With contract responsibilities and expenses increasing and revenue decreasing, it is very difficult to manage and is a constant battle to bring in enough contracts to cover what we need to do for our region. Most of our contracts are on a reimbursement basis and our contractors, being governmental entities, are sometimes slow to pay. We are committed to providing as close to the same level of service, as funding allows. As a safeguard to be sure that there is no interruption of service, we have available to us a line of credit which will cover any temporary cash deficiency.

The major impact for fiscal year 2011-12 will be the continued effort to acquire more Performance Based contracts to offset the deficiency in the federal and state funded programs. GADD's dependency on Performance Based contracts will continue to be a high priority and of utmost importance. Federal and state funding amounts must increase to help offset the cost attributed to those specific programs supported by federal and state funds. Otherwise, management must rely upon Performance Based funding to contribute to those programs that fall short in funding.

GADD has experienced another difficult year, financially. For example, stipulations of contracts like the Transportation require a full time employee but there aren't enough funds to cover a seasoned full time employee. It is a continual struggle to manage the agency's current workload, while seeking additional external contracts, with a limited number of staff.

CONTACTING GADD

The financial report is designed to provide GADD's citizens, investors, creditors, and other interested party's with a general overview of the agency's finances and to demonstrate GADD's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Gail Wright, Executive Director, at 110 Lake Park Drive, Morehead, KY 40351. Mrs. Wright may also be reached by phone at (606) 780-0090, ext. 2108



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Gateway Area Development District
Morehead, Kentucky

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

We have audited the accompanying statement of net assets of the Gateway Area Development District as of June 30, 2011 and 2010 and the related statement of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Gateway Area Development Districts' management. Our responsibility is to express an opinion on these financial statements as a result of our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and **Government Auditing Standards**, as issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Gateway Area Development District as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 4 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated September 13, 2011 on our consideration of the Gateway Area Development District's internal control structure over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and its compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gateway Area Development District's financial statements as a whole. The accompanying schedule of expenditures of federal awards on Page 29, as required by U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments and Non-Profit Organizations**, and the other supplemental information on Pages 17 through 25 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards and other supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
September 13, 2011

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF NET ASSETS
JUNE 30,

ASSETS	2011	2010
Current assets		
Cash-unrestricted	\$ 187,110	\$ 373,509
Cash- restricted	476,183	537,345
Accounts receivable, net		
Federal and state	392,605	128,659
Local	98,962	153,330
Loans receivable- restricted, net of allowance (Note 5)	<u>433,154</u>	<u>391,703</u>
Total current assets	1,588,014	1,584,546
Capital assets		
Property, equipment and construction in process, net	1,074,210	1,120,457
Ammortized assets	<u>13,027</u>	<u>13,389</u>
Total assets	<u>\$ 2,675,251</u>	<u>\$ 2,718,392</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 175,460	\$ 219,626
Accrued payroll and payroll taxes	12,382	10,481
Accrued annual leave	41,582	38,602
Accrued interest payable	-	1,013
Other current liabilities	13,455	14,494
Deferred credits, unearned grants (Note 11)	78,394	80,086
Lines of credit	-	114,518
Notes payable, current portion	<u>23,797</u>	<u>21,697</u>
Total current liabilities	345,070	500,517
Long-term debt	<u>1,275,367</u>	<u>1,299,239</u>
Net Assets		
Invested in capital assets	1,274	33,427
Restricted for depreciation	22,722	17,019
Restricted for economic development	575,239	567,307
Unrestricted	<u>455,579</u>	<u>300,883</u>
Total net assets	<u>1,054,814</u>	<u>918,636</u>
Total liabilities and net assets	<u>\$ 2,675,251</u>	<u>\$ 2,718,392</u>

The accompanying notes are an integral part
of the financial statements.

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
for the years ended June 30,

	2011	2010
REVENUES		
Federal	\$ 720,447	\$ 754,980
Commonwealth of Kentucky	1,516,174	1,643,873
Local (includes in-kind)	335,799	351,196
Revolving loan interest	<u>19,301</u>	<u>20,989</u>
Total revenues	<u>2,591,721</u>	<u>2,771,038</u>
EXPENSES		
Salaries	629,181	685,223
Fringe benefits	302,681	355,057
Travel	51,172	39,449
Subgrantees	1,107,552	1,126,760
Other	<u>317,708</u>	<u>565,393</u>
Total expenses	<u>2,408,294</u>	<u>2,771,882</u>
OPERATING INCOME (LOSS)	183,427	(844)
NONOPERATING INCOME (EXPENSE)		
Bank interest	740	680
Interest expense	<u>(49,114)</u>	<u>(51,600)</u>
Increase (Decrease) in net assets	135,053	(51,764)
Net assets - beginning of year	918,636	1,087,639
Adjustments for deferred income (accounts receivable) and write-offs from prior years	<u>1,125</u>	<u>(117,239)</u>
NET ASSETS - END OF YEAR	<u>\$ 1,054,814</u>	<u>\$ 918,636</u>

The accompanying notes are an integral
part of the financial statements.

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF CASH FLOWS
for the years ended June 30,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grantor agencies	\$ 1,972,108	\$ 2,323,301
Local cash received	348,716	721,277
Payments to suppliers	(1,456,814)	(1,667,201)
Payments to employee services and benefits	(928,025)	(1,054,242)
Revolving loan interest	<u>19,301</u>	<u>20,989</u>
Net cash provided by (used in) operating activities	<u>(44,714)</u>	<u>344,124</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest expense	(47,453)	(44,662)
Purchases of capital assets	(17,174)	(18,300)
Loan proceeds	-	100,000
Principal paid on capital debt	<u>(21,772)</u>	<u>(12,970)</u>
Net cash provided by (used in) capital and related financing activities	<u>(86,399)</u>	<u>24,068</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Bank interest	<u>740</u>	<u>680</u>
Net cash provided by investing activities	<u>740</u>	<u>680</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Line-of-credit interest	(2,670)	(7,048)
Change in line-of-credit, net	<u>(114,518)</u>	<u>(15,186)</u>
Net cash (used in) noncapital financing activities	<u>(117,188)</u>	<u>(22,234)</u>
Net increase (decrease) in cash	(247,561)	346,638
Cash - beginning of the year	<u>910,854</u>	<u>564,216</u>
CASH - END OF THE YEAR	<u>\$ 663,293</u>	<u>\$ 910,854</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Excess revenues over expenses	\$ 183,427	\$ (844)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation & amortization	57,309	65,226
Prior year deferred grant activity	1,125	(117,239)
Adjustment to accumulated depreciation (Note 14)	6,475	-
Change in assets and liabilities:		
Receivables, net	(209,574)	344,570
Prepaid expenses	-	1,000
Loans receivable	(41,451)	63,369
Accounts and other payables	(44,166)	(699)
Accrued expenses	853	(13,546)
Accrued leave	2,980	(416)
Loans payable	-	(1,127)
Deferred revenues	<u>(1,692)</u>	<u>3,830</u>
Net cash provided by (used in) operating activities	<u>\$ (44,714)</u>	<u>\$ 344,124</u>

The accompanying notes are an integral
part of the financial statements.

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

1. SUMMARY OF ACCOUNTING POLICIES

The Gateway Area Development District (GADD) is a governmental non-profit corporation formed pursuant to KRS Chapter 147A which has as its primary purpose the promotion of economic development and the establishment of a framework for joint federal, state and local efforts directed toward providing basic services and facilities essential to the social, economic and physical development of a five-county area in eastern Kentucky. Executive Order 71-1267, signed May 1969, designated the District as the official comprehensive planning and program development agency for eastern Kentucky. The Order further designated the District as the regional clearinghouse pursuant to United States Office of Management and Budget Circular A-95 known in Kentucky as KIRP, Kentucky Intergovernmental Review Process. The 1972 Kentucky Legislature introduced and passed legislation (House Bill No. 423) which created and established the District under Kentucky law.

Reporting Entity - The District's financial statements include the operations of all entities for which its Board of Directors exercise oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Basis of Presentation- The financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, "**Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments**" as it relates to special-purpose governments and, accordingly, the financial statements consist of the following:

Management's discussion and analysis (required supplementary information);

Basic financial statements

 Entity-wide financial statements

 Fund financial statements

 Notes to the financial statements

Entity-wide financial statements – GADD is a single fund, special-purpose entity that provides regional planning, development and aging services to the city, county and nonprofit agencies within the five county area. No entity wide statements are required because a single proprietary fund is used for the District.

Fund Financial Statements – GADD's financial statements include a statement of net assets, a statement of revenues, expenses, and changes of net assets and a statement of cash flows.

GADD follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not contradict GASB pronouncements.

Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Costs for all programs (including those programs outside of the Joint Funding Administration (JFA)) have been accounted for under the accounting system prescribed by the JFA. Indirect expenses have been allocated to JFA program elements and other programs on the basis of direct salary and fringe costs as allocated per employee's time records. Non-federal matching contributions are applied to individual programs on the basis of total expenses incurred on the program and the sharing ratio specified in the program agreement.

Revenue Recognition Policies – The District recognizes revenue on the accrual basis of accounting. Grant and contract revenue is recognized as eligible expenses are incurred. Revenue is recognized on performance contracts upon the completion of agreed upon services.

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

1. SUMMARY OF ACCOUNTING POLICIES, continued

Non-Operating Income – The district recognizes investment income as non-operating income. All other income is recognized as operating income.

Deferred Revenue – Deferred revenue arises when funds are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Fixed Assets – Property and equipment are stated at cost and depreciated over their estimated useful lives of three (3) to ten (10) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. Depreciation expense is charged to shared costs and is allocated to the various grants using the approved cost allocation plan.

Budgeting – The District is not required to adopt a legal budget in the manner of most local governmental entities, the budget is an operational and management tool that ensures the maximum use of resources. The budget is approved by the board of directors and monthly reports are presented to the board and management using budget comparisons.

In-Kind - In-kind contributions included in the accompanying financial statements consist of donated volunteer time, facilities or services.

Compensated Absences - Employees of the District accrue sick leave at the rate of 10 hours per month. Temporary employees earn no benefits. The maximum amount of sick leave that may be accrued is 720 hours. Annual leave is earned on the same basis as sick leave and can be carried forward from one year to the next. A maximum amount of annual leave of 240 hours may be carried forward. The accrued liability for accumulated annual leave is reported on the balance sheet at June 30, 2011 and 2010 was \$41,582 and \$38,602, respectively.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. INCOME TAXES

GADD is a non-profit organization formed in 1969, and is exempt from income taxes under Internal Revenue Code 501(c)(1) as determined by the IRS.

3. CASH AND INVESTMENTS

The District's deposits and investments at June 30, 2011 were fully covered by federal depository insurance and pledged securities. Kentucky Revised Statutes authorize local governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

3. CASH AND INVESTMENTS, continued

The following summarizes the coverage on bank deposits for the year ended June 30,:

	2011	2010
Federal Depository Insurance	\$ 624,536	\$ 671,800
Collateral held by pledging bank	<u>71,173</u>	<u>296,650</u>
Total bank deposits	<u>\$ 695,709</u>	<u>\$ 968,450</u>

4. GRANTS RECEIVABLE

Federal and state receivables are expected to be fully collectible. At June 30, 2011 and 2010 local receivables are shown net of an allowance of \$11,471. Federal and state grants receivable consists of the following:

	2011	2010
WIA	\$ 17,961	\$ 29,629
Transportation Planning	8,071	16,371
CDO	104,240	62,225
NHPLP	-	12,000
ARRA	-	2,810
Aging	260,474	-
Hazard Mitigation	1,859	5,436
Miscellaneous	<u>-</u>	<u>188</u>
Total	<u>\$ 392,605</u>	<u>\$ 128,659</u>

5. LOANS RECEIVABLE

Revolving Loan Program – established by initial grants from the Economic Development Administration to assist high-risk small businesses in the area local communities with infrastructure.

Nonprofit Housing Production Loan Program – funding originates from the Kentucky Housing Corporation to provide loans to purchase or rehabilitate homes for low-income individuals.

	2011	2010
Revolving loans - business	\$ 594,089	\$ 538,933
NHPLP	<u>84,071</u>	<u>88,123</u>
Total	678,160	627,056
Less: reserve for NHPLP	(9,653)	-
Less: reserve for RLF	<u>(235,353)</u>	<u>(235,353)</u>
Net	<u>\$ 433,154</u>	<u>\$ 391,703</u>

6. REVOLVING LOAN PROGRAM

Gateway Area Development District, Inc. received a grant of \$500,000 from the U.S. Department of Commerce, Economic Development Administration (EDA) to establish a revolving loan program to stimulate economic development in the area. In addition, the District provided a local match of \$167,000, as required by the grant. At June 30, 2011, the accompanying financial statements include RLF loans receivable for \$594,089 and cash of \$321,173.

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

7. CAPITAL ASSETS

The District maintains property and equipment used in its operations. Fixed assets are stated at cost and depreciated over their estimated useful lives of three (3) to ten (10) years using the straight-line method of depreciation. Property and equipment include furniture, office equipment, vehicles and leasehold improvements. Depreciation expense is charged to shared costs and is allocated to the various grants using the approved cost allocation plan.

The following summarizes the changes in fixed assets during the fiscal years:

	06/30/09 Balance	FY 2010 Additions	06/30/10 Balance	FY 2011 Additions	06/30/11 Balance
Property and equipment	\$ 426,144	\$ 16,095	\$ 442,239	\$ 17,174	\$ 459,413
Building and land	<u>1,107,556</u>	<u>2,275</u>	<u>1,109,831</u>	<u>-</u>	<u>1,109,831</u>
Total fixed assets	1,533,700	18,370	1,552,070	17,174	1,569,244
Less: accumulated depreciation	<u>(366,748)</u>	<u>(64,865)</u>	<u>(431,613)</u>	<u>(63,421)</u>	<u>(495,034)</u>
Net	<u>\$ 1,166,952</u>	<u>\$ (46,495)</u>	<u>\$ 1,120,457</u>	<u>\$ (46,247)</u>	<u>\$ 1,074,210</u>

Depreciation expense for the year ended June 30, 2011 was \$56,946. Additions for fiscal year 2011 include an adjustment to accumulated depreciation, see Note 14.

8. LONG-TERM DEBT

Notes payable consists of loans obtained for the current office building, in addition to various loans which were received for lending purposes for economic development and low-income housing and will be repaid from payments collected from borrowers

	2011	2010
Kentucky Housing Corporation, consists of various smaller loans, each with a 20-year maturity, bearing interest at a rate of 1%, currently due beginning June of 2017.	\$ 126,613	\$ 133,906
USDA Rural Development, secured by current office building, \$100,000 loan bearing interest at a rate of 4.125%, due May of 2050.	99,615	100,000
USDA Rural Development, obtained for the current office building, consists of two \$550,000 loans that bear interest at a rate of 4.125%, due June of 2047.	<u>1,072,936</u>	<u>1,087,030</u>
Total debt	1,299,164	1,320,936
Less: current portion	<u>(23,797)</u>	<u>(21,697)</u>
Total long-term debt	<u>\$ 1,275,367</u>	<u>\$ 1,299,239</u>

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

8. LONG-TERM DEBT, continued

Minimum required payments are as follows:

Year	Principal	Interest	Total
2012	\$ 23,797	\$ 49,655	\$ 73,452
2013	25,489	49,095	74,584
2014	26,135	48,449	74,584
2015	26,791	47,793	74,584
2016	27,474	47,110	74,584
2017-2021	148,646	224,274	372,920
2022-2026	143,678	198,622	342,300
2027-2031	146,076	169,349	315,425
2032-2036	178,795	136,630	315,425
2037-2041	218,852	96,583	315,435
2042-2046	267,898	47,562	315,460
2047-2050	<u>65,533</u>	<u>4,916</u>	<u>70,449</u>
Totals	<u>\$ 1,299,164</u>	<u>\$ 1,120,038</u>	<u>\$ 2,419,202</u>

The following is a summary of changes in long-term debt for the year ended June 30,:

6/30/2009	Additions	Payments	6/30/2010	Additions	Payments	6/30/2011
<u>\$ 1,235,033</u>	<u>\$ 106,155</u>	<u>\$ (20,252)</u>	<u>\$ 1,320,936</u>	<u>\$ -</u>	<u>\$ (21,772)</u>	<u>\$ 1,299,164</u>

DEBT REQUIREMENTS

The USDA Rural Development Debt requires a Depreciation Reserve be created and maintained. This reserve is required to receive an annual transfer of \$6,336 until it reaches a balance of \$63,360. The required reserve balance at June 30, 2011 and 2010 was \$27,156 and \$20,820, respectively. The reserve balance at June 30, 2011 and 2010 was \$22,722 and \$17,019, respectively.

9. LINES OF CREDIT

The District typically maintains operating lines of credit throughout the year. Two \$300,000 lines of credit were open at local banks at June 30, 2010. The balance of one of the lines of credit at June 30, 2010 was \$114,518. In fiscal year 2011, all balances were paid off and the lines of credit expired. At year end June 30, 2011, there were no lines of credit open. The notes carried interest rates of 3.50%. Interest expense for FY 2011 and 2010 was \$1,661 and \$5,509, respectively. The balances of these notes are classified as current liabilities in the statement of net assets.

10. LEASE COMMITMENTS

The District also has operating leases for office equipment. Rental expense in FY 2011 and 2010 was \$21,731 and \$17,271, respectively.

Future minimum lease payments under the operating leases are as follows:

2012	\$ 19,080
2013	19,080
2014	<u>7,950</u>
Total	<u>\$ 46,110</u>

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

11. UNEARNED GRANT REVENUE

The June 30, 2011 and 2010 unearned grant revenue or deferred revenue includes revenues received, but not earned, for Gateway Area Development grants as following:

	2011	2010
JFA - Economic Development	\$ 221	\$ 221
JFA - CDBG	69	13
JFA - ARC	14,143	13,929
JFA - Management Assistance	142	142
JFA - Program Administration	276	131
Aging - Administration	852	887
Adult Day Care	48	3,403
Homecare - Administration	911	786
Homecare - Social Services	18,373	1,475
Title III C-1	955	932
Title III C-2	9,306	9,306
Title III B	118	16,615
Title III E	688	662
Hazard Mitigation	8,964	-
State LTC Ombudsman	-	1,346
Wait list meals	-	8,531
HICA	2,652	2,627
MIPPAABOA	557	24
MIPPAABOA Grant 2	12	-
Title III D	8,426	9,762
KY Caregiver	75	34
WIA	172	1,370
Transportation	285	144
ADRM	18	-
Money Follows Person	3,867	-
PCAP	47	533
NSIP	7,162	7,158
ARRA	<u>55</u>	<u>55</u>
Total	<u>\$ 78,394</u>	<u>\$ 80,086</u>

12. RELATED PARTY TRANSACTIONS

GADD provides fiscal management services to Gateway CDO Program as Fiscal Agent (GADD CDO). GADD CDO operates the Consumer Directed Options program for the Cabinet for Health and Family Services, Department of Aging and Independent Living (DAIL) for the Gateway Area District. Waiver clients have the option to choose CDO at any time. The ADD serves as the fiscal agent for the client and as a support broker. As clients opt for CDO, Medicaid advances funds based on client budgets. These funds are to be used to pay for services on behalf of the client. Throughout the year, DAIL reassesses the CDO program funding. Funds for each ADD are realigned and/or increased in accordance with the client data. In addition to advances, as client services are rendered, Medicaid is billed and the funds are paid to the CDO program. During the years ended June 30, 2011 and 2010, GADD received \$187,269 and \$224,510, respectively from the CDO program for administration and GADD was owed \$104,240 and 62,225, respectively by the CDO program. The accounts receivable are included in the federal and state line item on the statement of net assets.

**GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010**

13. RETIREMENT PLAN

Gateway Area Development District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retiree's benefit payments. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 118,735	100%
2010	\$ 131,033	100%
2009	\$ 109,474	100%

14. PRIOR YEARS GRANT ACTIVITY

The following adjustments and write-offs have been made as a result of prior year activities:

	2011	2010
Accounts payable	\$ -	\$ 19,252
Receivables	6,565	(128,577)
Deferred revenue	-	(7,914)
Accumulated depreciation	(6,475)	-
Long-term debt	<u>1,035</u>	<u>-</u>
Total	<u>\$ 1,125</u>	<u>\$ (117,239)</u>

GATEWAY AREA DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and 2010

15. COMMITMENTS AND CONTINGENCIES

The financial statements contained herein do not include any provisions or allowances for any questioned or disallowed costs.

16. RECLASSIFICATIONS

Certain reclassifications have been made to the 2010 financial statements in order to conform to the 2011 presentation with no effect on previously reported results of activities or net assets.

17. SUBSEQUENT EVENTS

The District has evaluated and considered the need to recognize or disclose subsequent events through September 13, 2011, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2011, have not been evaluated by the District.

SUPPLEMENTAL INFORMATION

COST ALLOCATION POLICY

GATEWAY AREA DEVELOPMENT DISTRICT COST ALLOCATION POLICY

All funds expended by Gateway Area Development District are charged either to a specific grant and/or program element as a Direct Charge or spread to all grants and/or program elements as a Shared (Indirect) cost. Direct charges are defined in OMB Circular A-87 as those that can be identified specifically with a particular cost objective. Shared (Indirect) costs are those incurred for a common or joint purpose benefiting more than one grant and/or program element. All costs are recognized under the provisions of OMB Circular A-102. Below is a listing of direct and shared costs as they are charged by Gateway ADD.

Direct/Shared Costs

1. Salary - The agency support staff (including most of the Executive Assistant, Receptionist, Finance Officers and Executive Director's time) is charged as shared. If an unusual amount of time is needed in specific elements, these positions may upon occasion charge hours directly to programs. If used primarily in a sufficient amount, it should be recognized as direct costs to the respective program elements in which they worked. All program planners and coordinators salaries are charged as direct costs to the respective program element in which they work.
2. Employee Burden - All employee burden (e.g. FICA, workman's compensation, retirement, health insurance, etc.) which can be specifically related to an employee whose salary is being charged as a direct cost, is also charged as a direct cost. The employee burden related to an employee, whose salary is charged as a shared cost, is charged as a shared cost. Where employee burden cannot be broken down into each specific element or employee, it is charged as a shared cost.
3. Consultant Contracts and Contractual Services - All consultant contracts are charged as direct cost to the specific appropriate element.
4. Printing - Printing which is directly attributable to a specific work element is charged as a direct cost to the element, and consideration has been given to those direct costs in preparing the budget. Publications, whether prepared in-office or out-of-the office, are charged to those specific work elements to which they apply. Ads, notices of hearing, etc. that are printed as legal notices, are charged as direct costs where they can be identified in a sufficient amount. In areas where they are minor and according to recommendations by the CPA firm, they are charged as shared cost. Miscellaneous printing is charged as a shared cost.
5. Travel - An employee who travels pertaining to a specific element, charges time to that work element for which the travel expense is incurred. An employee who travels pertaining to more than one work element, and can specifically identify that work element, also charges the cost to more than one work element.

All travel of shared personnel is charged as a shared cost. Due to the limited number of staff and funds available, staff persons frequently utilize trips to cover more than one work element.
6. Board Travel - Board Members who travel pertaining to a specific element, charges travel to that work element for which the travel expense is incurred. Any travel that does not pertain to a certain work element will be charged as a shared cost.
7. Vacation, and Sick Leave - All leave is charged to the leave accrual account in accordance with the directions provided by the JFA Bookkeeping Manual. Each month, a specific percentage of the monthly amount charged to each element for salary is also added as vacation accrual. Vacation accrual, which pertains to shared cost salaries, is also charged as shared cost. These provisions permit the correct charging of each element. It also assures that each grant fund is charged equitably for vacation accrual.

**GATEWAY AREA DEVELOPMENT DISTRICT
COST ALLOCATION POLICY, continued**

8. Audit Fees – Audit fees GADD accounts per the JFA Bookkeeping Manual are charged as a shared cost. The accounting system permits each element to accept proportionate amounts of charges. Any additional charges that are directly related to extra work in a specific element will be charged directly to the program.
9. Space Cost – The space cost and routine repair and maintenance is charged as a shared cost, unless otherwise determined by the Executive Director to be exclusively for a specific work element. GADD's mortgage payment, utilities, cleaning, internet, telephone and repairs are included as shared cost.
10. Equipment – Rental/Purchase/Maintenance – All equipment rentals, purchases, and maintenance costs are charged as shared cost.

All additional costs not identified above are charged as (a) a direct cost if specifically identifiable with a particular element or (b) as a shared cost if incurred for a common or joint purpose benefiting more than one element and is not readily assignable.

**GATEWAY AREA DEVELOPMENT DISTRICT
SCHEDULE OF SHARED COSTS
for the years ended June 30,**

Cost Category	2011	2010
Personnel compensation	\$ 168,388	\$ 196,291
Fringe benefits	74,098	123,443
Travel	9,092	3,744
Accounting and audit	18,000	29,915
Equipment, leases, depreciation and amortization	82,684	84,865
Supplies	8,434	19,079
Postage	2,228	1,722
Telephone and utilities	29,592	25,798
Committee meetings	2,793	3,233
Dues, fees and subscriptions	5,939	2,849
Insurance	15,231	6,743
Other	16,640	38,342
Interest	<u>49,114</u>	<u>50,171</u>
 Total shared costs allocated	 <u>\$ 482,233</u>	 <u>\$ 586,195</u>

**GATEWAY AREA DEVELOPMENT DISTRICT
JOINT FUNDING ADMINISTRATION PROGRAM
Period of Performance: July 1, 2010-June 30, 2011**

		Budget	Direct	Indirect	Total	Over (Under) Budget	Questioned Costs (Ref.)
Revenues							
Federal Funds		\$ 133,748	\$ -	\$ -	\$ 133,748	\$ -	
State Funds		89,852	-	-	89,436	(416)	
Local Funds		-	-	-	-	-	
		<u>223,600</u>	<u>-</u>	<u>-</u>	<u>223,184</u>	<u>(416)</u>	
Expenses							
Community & Economic Planning & Development	120	78,750	46,792	32,041	78,833	83	
Community Development Block Grant	125	30,068	18,005	12,007	30,012	(56)	
ARC Planning	130	111,429	65,610	45,478	111,088	(341)	
Management Assistance	140	1,676	1,094	625	1,719	43	
Program Administration	150	<u>1,677</u>	<u>902</u>	<u>630</u>	<u>1,532</u>	<u>(145)</u>	<u>-</u>
		<u>223,600</u>	<u>132,403</u>	<u>90,781</u>	<u>223,184</u>	<u>(416)</u>	<u>\$ -</u>
Revenues over Expenses							
		<u>\$ -</u>			<u>\$ -</u>	<u>\$ -</u>	

**FINANCIAL SCHEDULES
AREA AGENCY ON AGING**

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF COMPLETED GRANT AREA AGENCY ON AGING
for the year ended June 30, 2011

	Agency Adminis- tration	Title III						Ombuds man	Total Title III
		Social Services B	Cong. Meals C-1	H.D. Meals C-2	D	E	F		
Revenues									
Federal grant	\$ 41,113	\$ 156,844	\$ 99,220	\$ 62,031	\$ 5,362	\$ 35,987	\$ 1,565	\$ 3,155	\$ 405,277
State grant	17,254	17,818	30,292	10,947	4,546	-	-	-	80,857
Local	-	28,907	29,722	152,950	-	13,569	276	558	225,982
Interest on advance	-	-	-	-	-	-	-	-	-
Program income	-	2,879	20,465	4,467	-	-	-	-	27,811
Local funds applied	-	-	-	-	-	-	-	-	-
Total revenues	58,367	206,448	179,699	230,395	9,908	49,556	1,841	3,713	739,927
Expenses									
Salaries	14,770	7,558	3,810	-	3,103	4,825	-	-	34,066
Fringe benefits	9,720	5,112	2,543	-	1,999	2,778	-	-	22,152
Staff travel	4,788	35	-	-	21	-	-	-	4,844
Subgrantees	-	184,740	168,707	230,374	-	22,366	-	3,713	609,900
Other costs	11,978	150	200	21	1,220	14,275	1,841	-	29,685
Total direct cost	41,256	197,595	175,260	230,395	6,343	44,244	1,841	3,713	700,647
Shared costs	17,111	8,853	4,439	-	3,565	5,312	-	-	39,280
Total expenses	58,367	206,448	179,699	230,395	9,908	49,556	1,841	3,713	739,927
Revenue over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF COMPLETED GRANT AREA AGENCY ON AGING
for the year ended June 30, 2011

	Home care		Other										Total Agency on Aging			
	Admin	Soc Service	Money Follows Person							LTC Ombudsman	KY CAREGIVER	MIPPAABOA		MIPPAABOA 2	Total HC & Other	
			ADC	PCAP	NSIP	ADRC	Follows Person	CMS - SHIP								
Revenues																
Federal grant																
State grant	\$ 27,213	\$ 277,387	\$ -	\$ 279,063	\$ 43,085	\$ 8,937	\$ 1,373	\$ 15,071	\$ -	\$ -	\$ 4,124	\$ 6,461	\$ 79,051	\$ 484,328		
Local	-	7,758	57,303	-	-	-	-	-	28,574	44,387	-	-	713,927	794,784		
Interest on advance	-	-	-	-	-	683	-	-	-	-	-	-	8,441	234,423		
Program income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Local funds applied	-	-	-	-	-	-	-	-	-	-	-	-	-	27,811	-	
Total revenues	27,213	285,145	57,303	279,063	43,085	9,620	1,373	15,071	28,574	44,387	4,124	6,461	801,419	1,541,346		
Expenses																
Salaries	9,394	52,775	3,413	4,012	-	3,288	505	6,490	-	5,410	1,584	3,294	90,165	124,231		
Fringe benefits	5,424	11,457	2,275	2,623	-	1,973	295	701	-	3,643	352	464	29,207	51,359		
Staff travel	778	19,953	-	287	-	-	-	260	-	74	214	67	21,633	26,477		
Subgrantees	-	111,232	47,281	267,480	43,085	-	-	-	28,574	-	-	-	497,652	1,107,552		
Other costs	1,264	44,849	360	25	-	683	14	2,596	-	28,935	621	10	79,357	109,042		
Total direct cost	16,860	240,266	53,329	274,427	43,085	5,944	814	10,047	28,574	38,062	2,771	3,835	718,014	1,418,661		
Shared costs	10,353	44,879	3,974	4,636	-	3,676	559	5,024	-	6,325	1,353	2,626	83,405	122,685		
Total expenses	27,213	285,145	57,303	279,063	43,085	9,620	1,373	15,071	28,574	44,387	4,124	6,461	801,419	1,541,346		
Revenue over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS FOR CONSUMER DIRECTED OPTION (CDO)
for the year ended June 30, 2011

	<u>Support</u>	<u>Mgmt</u>	<u>Total CDO</u>
Revenues			
Federal grant	\$ -	\$ -	\$ -
State grant	152,987	59,200	212,187
Local	8,919	-	8,919
Interest on advance	-	-	-
Program income	-	-	-
Local funds applied	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>161,906</u>	<u>59,200</u>	<u>221,106</u>
Expenses			
Salaries	50,641	16,389	67,030
Fringe benefits	12,490	4,772	17,262
Staff travel	3,642	284	3,926
Subgrantees	-	-	-
Other costs	1,012	947	1,959
	<u>67,785</u>	<u>22,392</u>	<u>90,177</u>
Total direct cost	<u>67,785</u>	<u>22,392</u>	<u>90,177</u>
Shared costs	<u>44,110</u>	<u>14,785</u>	<u>58,895</u>
Total expenses	<u>111,895</u>	<u>37,177</u>	<u>149,072</u>
Revenue over expenses	<u>\$ 50,011</u>	<u>\$ 22,023</u>	<u>\$ 72,034</u>

OTHER GRANT SCHEDULES

**GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS
WORKFORCE INVESTMENT ACT
for the year ended June 30, 2011**

	<u>Dislocated Worker</u>	<u>Adult Services</u>	<u>Rapid Response</u>	<u>Total</u>
Revenues				
Federal funds	\$ 11,186	\$ 48,774	\$ 16,694	\$ 76,654
State funds	-	-	-	-
Interest on advance	-	-	-	-
Local funds	-	-	-	-
Annual Assessments	-	-	-	-
Other	-	-	-	-
Applied to programs	-	-	-	-
	<u>11,186</u>	<u>48,774</u>	<u>16,694</u>	<u>76,654</u>
Total revenues	<u>11,186</u>	<u>48,774</u>	<u>16,694</u>	<u>76,654</u>
Expenses				
Direct costs				
Salaries	4,022	16,601	6,285	26,908
Employee benefits	2,563	10,656	3,462	16,681
Travel	-	2,011	137	2,148
Subgrantees	-	-	-	-
Other costs	-	461	-	461
	<u>6,585</u>	<u>29,729</u>	<u>9,884</u>	<u>46,198</u>
Shared costs	<u>4,601</u>	<u>19,045</u>	<u>6,810</u>	<u>30,456</u>
	<u>11,186</u>	<u>48,774</u>	<u>16,694</u>	<u>76,654</u>
Total expenses	<u>11,186</u>	<u>48,774</u>	<u>16,694</u>	<u>76,654</u>
Revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

GATEWAY AREA DEVELOPMENT DISTRICT
STATEMENT OF OPERATIONS BY PROGRAM AND SUPPORTING SERVICES
for the year ended June 30, 2011

	JFA Schedule	Area Agency on Aging	WIA	TANF	Trans- portation	NIMS	Revolving Loan Program	NHPLP Grants	Hazard Mitigation	Roadway	Performance Contracts	Total CDO	G & A Expense	Local Operations	Total
Revenues															
Federal funds	\$ 133,748	\$ 484,328	\$ 76,654	\$ 2,815	\$ -	\$ 3,500	\$ -	\$ -	\$ 4,402	\$ 15,000	\$ -	\$ -	\$ -	\$ -	\$ 720,447
State funds	89,436	794,784	-	-	87,017	-	-	4,929	-	-	347,821	212,187	-	-	1,516,174
Interest on advance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Local funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Assessments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	262,234	-	-	7,462	-	19,301	2,152	536	-	-	8,919	-	45,763	45,763
Applied to programs	-	-	-	-	-	6	-	-	-	-	-	-	-	9,473	310,077
														(6)	-
Total revenues	223,184	1,541,346	76,654	2,815	74,479	3,506	19,301	7,081	4,938	15,000	347,821	221,106	-	55,230	2,592,461
Expenses															
Direct costs															
Salaries	80,607	124,231	26,908	1,083	26,735	1,236	3,963	522	1,850	5,424	121,204	67,030	168,388	-	629,181
Employee benefits	49,318	51,359	16,681	269	16,391	746	2,696	293	1,057	3,176	66,335	17,262	74,098	-	302,681
Travel	2,443	26,477	2,148	77	1,082	21	-	-	-	110	5,796	3,926	9,092	-	51,172
Subgrantees	-	1,107,552	-	-	-	-	-	-	-	-	-	-	-	-	1,107,552
Other costs	36	109,042	461	-	138	-	57	942	-	-	6,945	1,959	230,655	16,587	386,822
	132,404	1,418,661	46,198	1,429	44,346	2,003	6,716	1,757	2,907	8,710	203,280	90,177	482,233	16,587	2,457,408
Shared costs	90,780	122,685	30,456	1,386	30,133	1,503	4,653	569	2,031	6,290	132,850	58,895	(482,233)	-	-
Total expenses	223,184	1,541,346	76,654	2,815	74,479	3,506	11,369	2,326	4,938	15,000	336,130	149,072	-	16,587	2,457,408
Revenues over expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,932	\$ 4,755	\$ -	\$ -	\$ 11,691	\$ 72,034	\$ -	\$ 38,643	\$ 135,053

**GATEWAY AREA DEVELOPMENT DISTRICT
INDEPENDENT AUDITORS' REPORT ON CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Gateway Area Development District
Morehead, Kentucky

We have audited the financial statements of Gateway Area Development District as of and for the year ended June 30, 2011, and have issued our report thereon dated September 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gateway Area Development District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gateway Area Development District's internal control over financial reporting. Accordingly, we do not express such an opinion on the effectiveness of Gateway Area Development District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gateway Area Development District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of the Board of Directors, management and appropriate grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley and Company

Ray, Foley, Hensley and Company, PLLC
September 13, 2011

**GATEWAY AREA DEVELOPMENT DISTRICT
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Gateway Area Development District
Morehead, Kentucky

Compliance

We have audited the compliance of Gateway Area Development District, with the types of compliance requirements described in the **U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that are applicable to each of its major federal programs for the year ended June 30, 2011. Gateway Area Development District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gateway Area Development District's management. Our responsibility is to express an opinion on Gateway Area Development District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gateway Area Development District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gateway Area Development District's compliance with those requirements.

In our opinion, Gateway Area Development District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Gateway Area Development District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gateway Area Development District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gateway Area Development District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

**GATEWAY AREA DEVELOPMENT DISTRICT
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133, (continued)**

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
September 13, 2011

**GATEWAY AREA DEVELOPMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2011**

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Expenditures	Note
U.S. Department of Commerce					
1. Appalachian Regional Commission					
JFA-ARC Planning	23.009		07/01/10-06/30/11	\$ 55,714	
2. Economic Development Administration					
Revolving Loan Program	11.302			694,973 *	(2)
Passed through the State (Department for Local Government)					
JFA-Community and Economic Assistance	11.302	PON2 1000003846 1	07/01/10-06/30/11	63,000	
U.S. Department of Housing & Urban Development					
Passed through the State (Department for Local Government)					
JFA- CDBG	14.218	PON2 1000003846 1	07/01/10-06/30/11	15,034	
U.S. Federal Highway Administration (FHWA)					
Passed through the State (Transportation Cabinet)					
Roadway Centerline	20.205	1100000375	07/01/10-05/31/11	15,000	
U.S. Department of Health and Human Services					
Passed through the State (CHFS DAIL)					
Title III B	93.044	PON2 725 1000002003 2	07/01/10-06/30/11	175,055 *	
Title III C1	93.045	PON2 725 1000002003 2	07/01/10-06/30/11	110,741 *	
Title III C2	93.045	PON2 725 1000002003 2	07/01/10-06/30/11	69,234 *	
NSIP	93.053	PON2 725 1000002003 2	07/01/10-06/30/11	43,085 *	
Total aging cluster				398,115	
Title VII Elder Abuse	93.041	PON2 725 1000002003 2	07/01/10-06/30/11	1,565	
Title VII Ombudsman	93.042	PON2 725 1000002003 2	07/01/10-06/30/11	3,155	
Title III D	93.043	PON2 725 1000002003 2	07/01/10-06/30/11	5,362	
ADRC	93.048	PON2 725 1000002003 2	07/01/10-06/30/11	8,937	
Title III E Caregiver	93.052	PON2 725 1000002003 2	07/01/10-06/30/11	40,165	
AOA - MIPPA AAA	93.071	PON2 725 1000002003 2	07/01/10-06/30/11	1,693	
ACA - MIPPA AAA	93.518	PON2 725 1000002003 2	07/01/10-06/30/11	2,110	
ACA - MIPPA ADRC	93.518	PON2 725 1000002003 2	07/01/10-06/30/11	1,786	
CMS - MIPPA ADRC/AAA	93.779	PON2 725 1000002003 2	07/01/10-06/30/11	359	
CMS - MIPPA SHIP	93.779	PON2 725 1000002003 2	07/01/10-06/30/11	2,072	
ACA - SHIP	93.779	PON2 725 1000002003 2	07/01/10-06/30/11	2,565	
CMS - SHIP	93.779	PON2 725 1000002003 2	07/01/10-06/30/11	15,071	
Money Follows Person	93.791	PON2 725 1000002003 2	07/01/10-06/30/11	1,373	
Total passed through the State (CHFS DAIL)				484,328	
Passed through the State (Education and Workforce Development Cabinet)					
Passed through Buffalo Trace Area Development District					
Work NOW KY - ARRA	93.558	PON2 531 1000002546 1	07/01/10-06/30/11	2,815	
Total HHS				487,143	
U.S. Department of Labor					
Passed through the State (Education and Workforce Development Cabinet)					
Passed through Buffalo Trace Area Development District					
WIA Adult Programs - ARRA	17.258	PON2 531 1000002222 1	07/01/10-06/30/11	4,587	
WIA Adult Programs	17.260	PON2 531 1000002222 1	07/01/10-06/30/11	44,187	
WIA Dislocated Workers	17.278	PON2 531 1000002222 1	07/01/10-06/30/11	11,186	
Rapid Response - ARRA	17.260	PON2 531 1000002222 1	07/01/10-06/30/11	16,694	
Total DOL - WIA Cluster				76,654	
U.S. Department of Homeland Security					
Passed through the State (KOHS)					
NIMS Cast	97.067		06/1/10-10/31/10	3,500	
Passed through the State (Division of Emergency Management)					
Pre-Disaster Mitigation	97.047	PON2 095 1000000506 1	03/19/10-06/30/12	4,402	
Total Homeland Security				7,902	
Total				\$ 1,415,420	

Notes:

- 1) Unearned revenue from other grantors both current and prior are disclosed in Note 11 to the financial statements.
- 2) The EDA-Revolving Loan Program includes a capital balance of \$915,262 - 75% of which is Federal - \$686,446, and 75% of administrative expenditures equaling \$8,527.

*Denotes Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Gateway Area Development District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**GATEWAY AREA DEVELOPMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2011**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ None reported

Non-compliance material to financial statements noted ☐ Yes ☒ No

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
11.302	EDA Revolving Loan Fund
93.044, 93.045, 93.053	Title III, Part B, C I & II, NSIP

Dollar threshold used to distinguish between type A
and type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS
NONE**

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
NONE**

**IV. PRIOR AUDIT FINDINGS
NONE**